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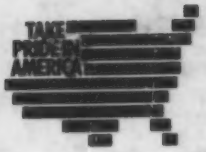
Reducing Farm Subsidies And Import Barriers: The Australian Example

Bloom Fades From Sunflowers **page 12**



Editor
Jack Harrison

Editorial Assistant
Martha R. Evans

(202) 786-1494

Assistant editors: Doug Martinez, Juliana King, Judith Foulke.
Art director: Richard J. Barnes.

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PERSPECTIVES

U.S. COTTON EXPORTS are expected to total 5.3 million bales in 1988/89, about 20% below 1987/88, based on USDA's mid-October forecasts. Increased production and more competitive prices by our competitors are the main reasons for the decline. The U.S. share of the world market is likely to fall from 27% to 22%, according to economist Carolyn Whitton of USDA's Economic Research Service.

This year's U.S. production is estimated at 14.7 million bales, slightly below 1987's output. Area harvested should be up about 16% to 11.7 million acres. But bad weather has reduced yields, which are expected to be substantially below last year's record of 706 pounds per acre.

The decline in exports should limit total use of U.S. cotton to just above 12 million bales. Annual totals in recent years have been about 14 million. Domestic mill use for 1988/89 is forecast at 6.9 million bales, down about 8% from the average of the last 2 years. U.S. stocks could reach 8.4 million bales at the end of the marketing year (July 31, 1989)--about 45% higher than they were when the year began.

Though exports will be down, they should be helped by recent changes in the U.S. cotton program. The adjustments were made because U.S. cotton had been generally uncompetitive in world markets during most of 1988. One change: The Commodity Credit Corporation will pay a portion of the interest and warehouse charges on producer loans when necessary to allow loan redemption at the adjusted world price.

World cotton production for 1988/89 is forecast at 85.3 million bales, up 6% from 1987/88. Consumption is expected to be 82.6 million bales, and exports 23.9 million. World stocks would increase almost 2.5 million bales during the year, to 35.1 million.

USDA's latest foreign production estimate was trimmed by 400,000 bales from a month earlier because of flooding in Pakistan and Colombia and smaller expected plantings in Australia. But the foreign crop is still forecast at 7% above 1987/88. Expected foreign exports of 18.6 million bales would be more than 1 million above last year.

Among other major exporters of cotton, China is expected to produce 21 million bales in 1988/89, the Soviet Union 12.4 million, and Pakistan 6.6 million.

* * * * *

Special note to readers: For a detailed look at the prospects for agriculture in the coming year, plan to join us for OUTLOOK '89, USDA's annual Agricultural Outlook Conference, Nov. 29-Dec. 1 in Washington, D.C. Top government and industry analysts will discuss what 1989 has in store for farmers, consumers, and agribusiness. There's no charge to attend. If you can't make it, audio cassette tapes will be available. For information, call (202) 447-3050 or write OUTLOOK '89, Room 5143 South Bldg., USDA, Washington, DC 20250-3900.

FARMLINE

AGRICULTURE...NATURAL RESOURCES...RURAL DEVELOPMENT
Practical economic intelligence from USDA's Economic Research Service

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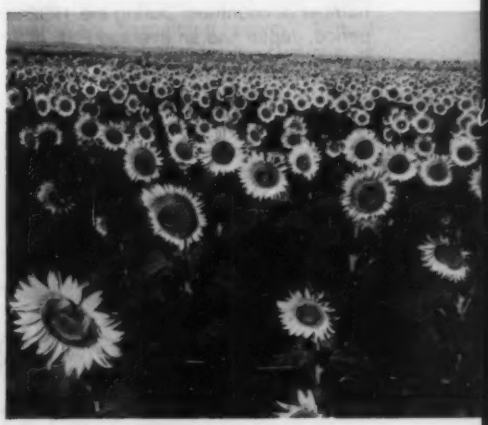
Australia has one of the lowest levels of government assistance to agriculture among the developed countries and is in the process of reducing that assistance even more. The Australian example is getting a close look by negotiators seeking to reduce trade restraints worldwide.

High-Tech Industry Not the Answer for All Rural Areas *by Doug Martinez* 8

Rural areas seeking to boost their economies by attracting high-tech industries might have a difficult time achieving their goals. The good jobs often stay in the cities, unless local resources match the needs of the companies being recruited.

Many Sunflower Growers Turn to Other Crops *by Judith Foulke* 12

Sunflowers were booming in the Northern Plains during the late 1970's, but acreage has been reduced substantially in the 1980's. The government programs for other crops have been a factor in the decline. Even this year's tight oilseed supplies and higher prices may not bring about an increase in sunflower production.



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This handy guide provides telephone numbers of key specialists in USDA's Economic Research Service and National Agricultural Statistics Service. The listings are arranged by subject to help you find the right person to answer questions about crops, livestock, farmland prices, trade, and other topics. Clip and save the guide.

Reducing Farm Subsidies: The Australian Example

Australia is reducing its government assistance to farmers, even though it already has one of the lowest levels of agricultural protection among the world's developed countries.

The cutbacks may provide Australia with more leverage as it continues to push for elimination or reduction of subsidies and barriers in world agricultural trade. Talks on farm trade are currently in progress, under the auspices of GATT (the General Agreement on Tariffs and Trade).

Economists now have quantitative measures of government intervention in agriculture. Analysts in USDA's Economic Research Service have calculated "producer subsidy equivalents" (PSE's) for a number of countries. During the 1982-86 period, Japan had an average PSE of 72 percent (the portion of farmers' gross income that came from government assistance), the European Community was at 35 percent, Canada 31 percent, the United States and New Zealand each 25 percent, and Australia 11 percent.

Australia exports 95 percent of its wool, 80 percent of its wheat, and 50 percent of its beef.

Segments of manufacturing industry in Australia are well-protected by the government, even though most of agriculture is not. ERS economist David Skully says that Australian agriculture overall is "taxed" rather than subsidized. That is, farmers lose, not gain, in net payments to and from the government and the protected industrial sector. Skully explains it this way: "The indirect costs of business tariffs to the farmers are more than the amount of government farm payments."

However, a few segments of agriculture are highly protected. Australia's PSE levels for major commodities during the 1982-86 period included dairy 34.8 percent, rice 13.8 percent, sugar 12.9 percent, wheat 6.8 percent, beef 6.4 percent, cotton 4.6 percent, sheepmeat 4.2 percent, and barley 2.9 percent.

The Australian federal government says it is unable to compete with export subsidies of other countries. Therefore, Australia's farm production and trade have largely reflected world market conditions.

Earlier this year, the Australian government announced a package of policy reforms, including provisions to abolish or significantly reduce payments and other government assistance to farmers, Skully says. The Australian Minister for Primary Industries and Energy (who has jurisdiction over agriculture) said in announcing the proposed reforms in May: "The Australian economy cannot afford to engage in domestic or export subsidies."

He added: "A fundamental objective of the government is to use diplomatic and commercial leverage to reduce international impediments to trade and to encourage more open markets and to reduce international market distortions."

Reductions Are Unilateral

Skully says that under the proposed reforms, Australian assistance to agriculture would fall, by 1990, to roughly half its 1986 level. Australia is not bargaining with other countries over these measures. "These reductions are unilateral and unconditional," Skully says.

The National Farmers Federation—the key agricultural lobbying group in Australia—supports the proposed reductions in government assistance to farmers in return for reductions in assistance to industry.

Photos from Australian Information Service

Economists have estimated that the net benefit would be $350 million to the farm sector, primarily in lower input and marketing costs.

Government protection of industry has a relatively long history in Australia. When the country gained its independence from Britain in 1901, one of the two major political parties was the Protectionist Party. Its views on industrial policy prevailed in the debates establishing the original structure of the government.

The attitude of the Australian people and government has been that this protection is necessary to guarantee a fair wage to industrial workers. As the size of the urban sector grew relative to the rural sector, the burden of protection grew. Farmers, who are dependent on the industrial sector for machinery and inputs, have been hard hit by the industrial protection, Skully says.

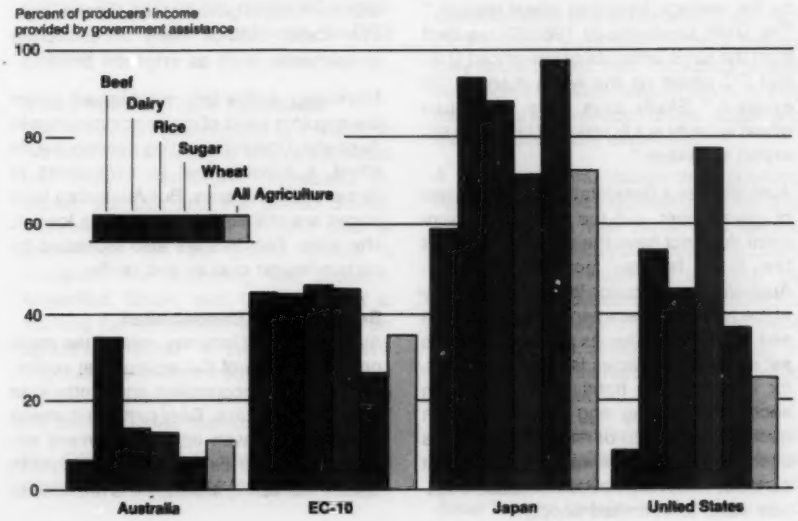
With a national population of only 16 million—and a resulting domestic market that is relatively small—Australia needs export markets as outlets for much of what its farmers produce. Depressed world commodity prices in recent years created distress in Australian agriculture, says Nina Swann, an ERS economist. Net farm income fell by nearly a third between 1984 and 1987.

Australian farmers have found that international competition in farm products can be cut-throat. The Australian industrial sector, however, has a regulated and captive domestic market. The farmers don't see this as a "fair go"—in the Australian vernacular.

The effective rate of assistance to the automobile industry, for example, is 250 percent, and for men's clothing it is 100 percent, Skully says. By contrast, flour milling and cotton ginning not only receive no subsidies, but are in fact taxed at about 20 percent.

Argentina, and New Zealand in recent years, are two countries where "taxes" on agriculture exceed government support. "In such countries, the cities live off the farms," Skully says, "instead of the farmers living off the cities as in many nations. Farming is in reality a cash cow for countries that tax agriculture."

Australia Had Comparatively Low Government Assistance to Agriculture, Measured as Producer Subsidy Equivalents, in 1982-86



Hard Times in the 1980's

In the 1980's, Australia's rates of unemployment and inflation have been relatively high. Its external debt increased from 4 percent of gross domestic product in 1976 to 32 percent in 1986. (In the United States, our external debt of about 3 percent of GDP is regarded by some as high.)

Australia plans to reduce nearly all import tariffs on manufactured goods to 10 or 15 percent by July 1992. Existing agricultural tariffs, including those on tobacco, sugar, and citrus, would be reduced—in the cases of these three commodities, to 15 percent.

Australia's agricultural sector is small compared to the farm economies of several of the other industrialized nations involved in trade negotiations, and this limits Australia's bargaining power. Annual agricultural production in Australia is valued at about $11 billion (in U.S. dollars). It exports nearly three-fourths of what it produces. In comparison, the United States produces about $150 billion worth of farm commodities annually, and exports about 20 percent of that ($26 billion to $33 billion in value annually in recent years.)

Australia exports 95 percent of its wool, 80 percent of its wheat and barley, nearly 75 percent of its sugar, rice, and cotton, and 50 percent of its beef. It is first among the world's exporters of beef and wool, second in lamb and mutton, third in wheat, and fourth in sugar.

In 1986/87, Australia's agricultural exports were valued at about $8.5 billion (U.S. dollars)—more than a third of the country's total exports. The farm exports included $2.7 billion worth of wool, $1.5 billion of wheat, $1.2 billion of beef and veal, $445 million of sugar, $396 million of fruits and vegetables, $344 million of sheepmeat, $333 million of dairy products, $246 million of barley, and $242 million of cotton.

Mining and energy products (with coal, aluminum ore, and iron ore leading the way) accounted for more than 40 percent of total Australian exports the same year.

Australia's land area is nearly as large as the continental United States, but includes

much arid acreage that is unsuitable for most crops. U.S. population is about 15 times Australia's. Australia's 1985 gross national product of approximately $150 billion was 3-4 percent of the $4.6 trillion U.S. GNP.

Agriculture Is Regulated

Agricultural policies in Australia reflect the country's comparative advantage in extensive crop and livestock operations and its dependence on exports, says economist Swann. Australian agriculture has been heavily regulated but not highly subsidized overall, she says, adding that assistance levels vary widely among commodities.

The Australian wheat program is mandatory. The government does not restrict wheat production, but marketing is under strict controls. The Australian Wheat Board has sole authority to sell wheat in domestic and foreign markets. Growers must either deliver their wheat to the Wheat Board or get a permit for feed or seed use. The board attempts to maximize its returns, then distributes the proceeds of wheat sales to producers, much like a mutual fund, Skully says. (There have been recent legislative proposals, however, to introduce more competition into the system by restricting the extent of the Wheat Board monopoly.)

The only price protection offered wheat producers is the Guaranteed Minimum Price (GMP), which is essentially a moving (multiyear) average of the world price. The government makes payments to farmers only if the price received by the Wheat Board is lower than the GMP. A 1986/87 payment, the first since 1973, resulted from the collapse of world wheat prices following the lowered loan rates and the new export programs of the 1985 U.S. farm bill. Even with the GMP payment, Australian growers received only $70 a ton at the farm for their wheat that year.

Because of lower prices, Australian wheat growers reduced their acreage from 32.5 million acres in 1983 to 22.5 million in 1987.

"Australian producers are affected by almost any wheat policy of the U.S. government," Skully says. "In some years, actions of the CCC (U.S. Commodity Credit Corporation) may have a greater impact on the average Australian wheat grower than on the average American wheat grower." The GMP payments of 1986/87 resulted from the large amounts of low-priced U.S. and EC wheat on the world market. "In essence," Skully says, "the Australian wheat subsidy is a function of U.S. and EC export subsidies."

Australia has a democratic, federal system of government, but the national government does not have the sort of power that the U.S. federal government has. Australia's constitution limits the authority of the federal government over production and marketing. The six Australian states set some farm policies themselves. Eggs, for instance, are tightly controlled, with each state setting egg prices and hen quotas. Production of rice and sugar has been limited through water management controls, which are needed because irrigation water is in limited supply.

The states have an important role in implementing many agricultural programs, by cooperation and complementary legislation with the federal government, Swann says. The states control many infrastructure investments, such as irrigation projects.

Marketing authorities established under law regulate sales of major commodities in Australia. Domestic pricing policies are, in effect, a subsidy paid by consumers to farmers, Swann says. But Australian food prices are still among the world's lowest, she adds. Farmers are also protected by certain import quotas and tariffs.

Beef Industry Uncontrolled

Australia's beef industry, one of the more profitable parts of the agricultural sector, "is basically uncontrolled and pretty wide open," Skully says. Beef cattle and sheep are produced with little government encouragement or control, except in health issues. Marketing assistance is provided to

the meat and wool sectors, but trading is by private firms.

The Australian Meat and Livestock Corporation, a statutory marketing organization, provides marketing support for beef, veal, and sheepmeat. It also allocates shares of restricted export markets among private firms. Livestock and meat imports are severely restricted, primarily through health regulations, and this matter is on the GATT agenda.

Grower levies support the Australian Wool Corporation, which maintains wool prices by holding surplus stocks and intervening in the marketplace.

Production and marketing of coarse grains and oilseeds receive little government support or control. Some states have marketing boards for specific commodities. Coarse grain imports are effectively prohibited.

Sugar production and marketing are tightly controlled. A board appointed by the Queensland state government sets annual production quotas for each mill, and mill quotas are then apportioned to individual growers.

As in the United States and Canada, Australia's consumers shoulder the burden, through higher prices, of government support to dairy producers, the ERS analysts say.

Allied Against Trade Restraints

The Australian government is a leader in the effort to restrain the use of subsidies and import restrictions, especially by Japan, the EC, and the United States. Australia is a member of, and often a spokesman for, the Cairns Group, a 14-nation bloc (including New Zealand, Argentina, Brazil, and Thailand) that is working for elimination of constraints on agricultural trade. In the current GATT negotiations on farm trade, the position of the Cairns Group is much closer to that of the United States than to that of the EC.

The EC generally favors retaining more government assistance to agriculture, and

constraints on farm trade, than does the United States.

Australian government officials say their number one objective in the GATT negotiations is to phase out farm export subsidies. Australian farmers contend that their export revenues have been reduced because of EC subsidized grain, dairy, sugar, and beef exports and U.S. grain export programs.

Market access is another area of concern for Australia. Australian farmers believe they could benefit from increased foreign demand for the wide range of products they can produce at low cost. Meats, sugar, and dairy products are examples.

A weak bilateral bargaining position, caused by a small domestic market and trade surpluses with Japan and several other major agricultural importing countries, has led Australia to push for multilateral negotiations and concessions. Australians believe that their beef trade with Japan has suffered as a result of bilateral arrangements between the United States and Japan.

A new government farm policy instrument, the Income Equalization Deposit Scheme —an alternative means of providing producer income stability—will go into effect in Australia in July 1989. This is a form of income tax averaging financed and controlled by the individual farmer. A producer can deposit surplus income in a tax-deferred account, which is taxed only when the money is withdrawn. "This is essentially a producer-managed, income stabilization program," Skully says.

"The policy reforms now being implemented make Australia an even more credible critic of the protectionist policies of other countries," Skully says.

What are the implications for U.S. agriculture of the changes in Australian farm policy?

"Gradually we should see a leaner, more efficient Australia, which will continue to compete as an exporter of grains, meat, fruits, sugar, and dairy products," Skully says. He adds that Australia and neighboring New Zealand have the most to gain if there is a significant liberalization of world agricultural trade. And, consumers in a number of countries would benefit from lower prices. □

[Based primarily on information provided by economists David Skully and Nina Swann of the Agriculture and Trade Analysis Division, Economic Research Service.]

High-Tech Industry Not the Answer For All Rural Areas

Rural communities trying to lure high-tech companies should take a hard look at their reasons—and resources—before investing too much time and money in this effort, according to economist James P. Miller of USDA's Economic Research Service.

If the goal is to attract a wide range of new jobs, including high-paying technical positions, rural areas may be disappointed, Miller says.

In some cases, high-tech firms do locate research and development (R&D) activities and other core operations in the country, but usually only when local resources (such as research facilities) match up with high-tech needs. More often, rural communities receive the most routine assembly tasks of the high-tech companies—lower skilled work which generally pays lower wages.

"Policymakers and local officials shouldn't be overly optimistic that rural areas can attract the kind of technology operations likely to provide high-paying jobs or improve overall economic conditions in their communities," says Miller. "High-tech firms may not be as footloose as many have been led to believe, particularly when they are in their most innovative state of development."

That hasn't stopped rural communities from trying, of course, and Miller says he can see why.

Survival at Stake?

"Many communities in rural America will face long-term economic decline because of powerful global and technological forces unless they can find new sources of growth," he says. "Jobs and incomes have been irretrievably lost in long-established rural industries such as agriculture, forestry, mining, and low-wage, low-technology manufacturing."

That means that "the survival and growth of rural communities has and will continue to depend on their ability to attract new businesses and industries."

And it poses an obvious question: What kinds of business activity are most likely to succeed in rural areas?

Future prospects may improve for rural areas attempting to attract high-tech industries.

"Some planners believe that rural areas should attempt to encourage investment in the fast-growing high technology industries because these industries are clean and are perceived to pay high wages," Miller says.

These industries include communications, electronics, defense systems, computers, and software. Among the sophisticated products involved are guided missile components and engineering and medical instruments.

To date, he notes that states and communities are committing an increasing share of their scarce economic development resources to high-technology development programs. One recent report cites 38 programs in 22 states specifically targeted to high-tech industries.

"To evaluate the potential effectiveness of high-tech industrial development programs," says Miller, "state and local officials need information on how these industries have been performing in rural America in recent years. In particular, they need to know how much employment high-tech firms have been generating in rural areas and whether high-tech firms are upgrading the quality of local jobs and improving the industrial structure of the rural economy."

Taking that issue as his point of departure, Miller examined "the degree and manner in which rural areas are participating in a burgeoning expansion of the nation's high technology industries."

Urban Areas Still Favored

So far, he says, the clear tendency is for new high-tech establishments to locate in urban areas.

"Metropolitan areas stand out as the preferred location of high-tech industries," he says. "New jobs created by high-tech industries were more concentrated in metro than nonmetro counties."

Moreover, high-level R&D industries appear to be even more oriented to metro areas than the broad category of high-tech industries.

"Computer manufacturing and software industries showed the strongest tendency among high-level R&D industries to concentrate in metro areas," Miller says. "New computer manufacturing establishments tended to locate in urban areas, primarily in the Northeast and West. But they were poorly represented in rural areas of every part of the country except New England, where many rural areas are highly integrated with urban areas." He adds that the computer software industry is also highly urban-oriented, but that it is more regionally dispersed than computer manufacturing.

On the other hand, "low-tech industries involved in non-innovative, routine production activities showed a stronger tendency to locate in rural than urban areas," Miller says.

However, rural areas seem to appeal to certain kinds of high-tech companies.

"Some of the high-tech industries that are drawn to rural areas are either dependent on natural resources, defense-related, labor intensive, or are involved in a production activity that may be unwelcome in a densely populated area," Miller says. "Rural areas in most parts of the country tend to have a comparative advantage in the production of chemical products, and to a lesser extent, petroleum refining, ordnance, and radio and TV manufacturing."

It's also clear, he says, that high-tech firms do not usually move their entire operations into rural areas.

"Locally owned, independent firms account for only about 11 percent of all jobs created by new high-tech firms in rural America," says Miller. "Corporate affiliates are the dominant form of new, high-tech business activity in rural areas, comprising

nearly 90 percent of the jobs in such industries."

Isolated Rural Units

These corporate affiliates may be far removed from the headquarters operation, further isolating the rural branches.

"New affiliates whose headquarters were located in a different region of the country accounted for about 58 percent of the jobs created by new, high-tech firms in rural areas, compared with 45 percent in urban areas," he says.

Miller says his research shows that "high-tech firms, particularly those in their innovative and product development phase, are attracted to metro locations by the availability of professional and technical workers, seed capital, close contacts with customers and suppliers, and other high-tech firms."

In contrast, he says, high-tech establishments in rural areas are more likely to be affiliates of urban-based corporations that have opened remote assembly plants to avoid high labor, land, and other production costs. This practice often occurs after the urban-based firm has gone through an initial development stage in the "home region" and after urban advantages have become less important than traditional input costs.

In effect, says Miller, national corporations in high-technology industries tend to follow the same pattern as corporations in other industries. "They tend eventually to send their routine production to nonmetro areas and other regions away from the company headquarters. Because the typical rural high-tech operation hires mostly unskilled, low-wage labor, it has about the same impact on the rural economy as the typical low-wage, routine manufacturing operations that have been attracted to rural areas in the past."

At the same time, corporations headquartered elsewhere may be less likely to continue operating in rural areas when economic conditions change.

"Large corporations based in cities tend to expand branch facilities in good times and reduce or eliminate them in bad times, with those located farthest from urban centers being most likely to experience large changes in employment," says Miller.

Future Prospects May Improve

Does all this mean that rural areas should not attempt to compete for high-tech firms?

Not necessarily, says Miller. It depends on the skills of the work force and the other resources available in the community, the costs of bringing in these businesses, the types of industries targeted, and the needs and expectations of the rural area. In fact, he maintains that future prospects may improve for rural areas attempting to attract high-tech industries.

"Over the longer term," he says, "advances in communications and the new information technologies may make it possible to decentralize some progressive, high-tech activities to rural areas."

That has certainly been the case in California, where some "knowledge-intensive" high-tech industries were able to move to rural locations to take advantage of a living environment that appeals to many well-educated, professional workers.

The possibilities are most favorable near defense and weapons development facilities and major research universities, says Miller.

In addition, those industries based in the community will generally offer a wider range of administrative and technical jobs and a more stable employment base than those headquartered elsewhere. □

[Based primarily on information provided by economist James Miller of the Agriculture and Rural Economy Division, Economic Research Service.]

'Product Cycle' Affects Location of High-Tech Jobs

Why do rural areas seem to be at the back of the line for high-tech's high-paying jobs?

Part of the answer, say economists, is found in something called "product cycle theory."

That theory, says ERS economist James Miller, "holds that products and industries go through a three-phase cycle, which begins when industries emerge with new and innovative products, continues as they expand, and ends once they saturate markets and mature."

In the first phase of development, he says, "firms are preoccupied with innovating and adapting products for new markets. At this stage, they are generally small and independently owned, and they tend to locate in larger urban areas where they can take advantage of specialized services, large pools of professional and technical labor, and a large local market for their output."

The second phase consists of product standardization and mass production, which begins as the innovation phase is nearing completion.

"During this period, the industry grows rapidly and begins to penetrate new markets," says Miller. "It also begins to disperse routine production activities to outlying locations to lower costs and capture new markets."

Finally, in the third phase, industries reach maturity.

"By this time, firms have saturated markets and begin to compete for market shares," says Miller. "The production process at this stage requires little of the professional and skilled labor found in urban areas. The decentralization of routine production activities to lower cost locations, which began in stage two, is completed."

Research has demonstrated that most rural areas have a comparative advantage for only the more standardized portions of the production process in high technology industries—activities that characterize the third phase of the product cycle.

"As high-tech firms enter the third stage of the product cycle, they transfer their more routine production activities from urban to rural areas," says Miller. "The rate at which high-tech firms increase employment in rural areas thus depends on where they are in the product cycle."

Consequently, he says, "when a large proportion of high-tech industries are entering stage three, growth prospects are favorable for rural areas even though most of the new jobs that would be created would be low-wage jobs."

Dialing Up Economic Information

Need economic information or data on today's, tomorrow's, or even yesterday's agriculture? The economists, statisticians, and other specialists of the Economic Research Service and National Agricultural Statistics Service may be able to help. Here is a brief telephone guide that you can pull out and add to your files. Generally, those listed with an "S" for "Statistics" can give you data on acreage, yield, production, livestock numbers, and stocks. Those identified with an "E" for "Economics" can help with supply-demand-price questions and other economic issues. All telephone numbers can be reached by dialing area code 202.

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Many Sunflower Growers Turn to Other Crops

A decade ago, sunflowers were labeled as one of the most promising "growth crops" around, particularly for farmers in the Northern Plains. But today that promise is far from being realized.

Even this year's tight U.S. oilseed supplies and higher prices are unlikely to offset the factors that have sharply reduced sunflower acreage in the 1980's.

Acreage expanded and production climbed rapidly from 709,000 acres and 786 million pounds in 1975 to 5.4 million acres and 7.3 billion pounds in 1979. But then the decline began and production in 1987 was only one-third of what it had been 8 years earlier.

Sunflowers do have several advantages. They are one of the relatively few crops that can be grown in the short growing season of Minnesota and the Dakotas, they have a deep root system that makes them resistant to drought, higher-yielding hybrids have been developed, there is a growing demand for oilseeds, and sunflowerseed oil is low in saturated fat.

Sunflowerseed prices during August 1988 averaged $12.37 per hundredweight in Duluth, up from $7.25 a year earlier. Sunflower oil prices were up also, to 29.7 cents per pound in July in Minneapolis, compared with 16.6 cents in July 1987.

And now with the drought relief legislation in place, emergency aid for the Northern Plains includes a provision allowing wheat and barley producers to plant a portion of their base acreage in sunflowers in 1989.

Back in 1979, a new hybrid sunflower was introduced which promised yields of 3,000 pounds of seed per acre with an oil content of 60 percent or more. Just 7 years before, the first hybrid had been released and during that time, when producers switched from the old open-pollinated system to hybrids, the acreage planted to sunflowers grew from 400,000 to 5.6 million. Production jumped from a little over 400 million pounds to nearly 7.3 billion.

But the new hybrids were not the only reason that sunflower production went through a growth spurt. Those were the years of the export boom. Demand for oilseeds as well as other farm products grew to record levels.

Tight oilseed supplies and higher prices are unlikely to offset the factors that have sharply reduced sunflower acreage in the 1980's.

So what happened? During the 1980's, acreage declined "precipitously," according to economist Bruce Wendland of USDA's Economic Research Service. Estimated plantings for the 1988 crop were 1.8 million acres, about 32 percent of 1979's peak. However, true to the promise of higher yields, production in 1987 hit a record of 1,469 pounds per acre, though still well below the potential of the new hybrids. ERS analysts do not expect a repeat of 1987 record yields this year, because of the drought damage.

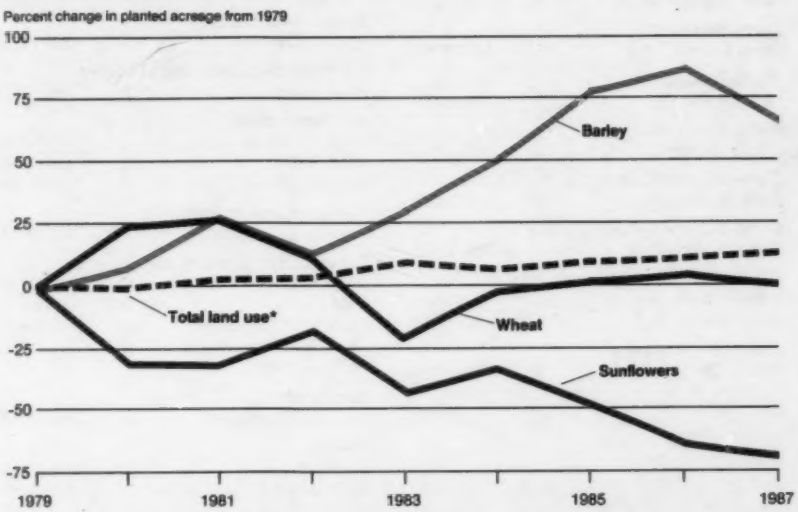
Competition from Major Crops

One of the most important factors in the decline of sunflower production since 1979 is that the areas most conducive to their production, North and South Dakota and Minnesota (with North Dakota the leader by far), are the same areas that grow the government program crops of spring wheat and barley. Wheat acreage has varied sharply since 1979, but 1988 acreage of 15.3 million acres was only 100,000 less than 1979's acreage. Barley acreage increased from 3.04 million acres in 1979 to 5.07 million in 1987.

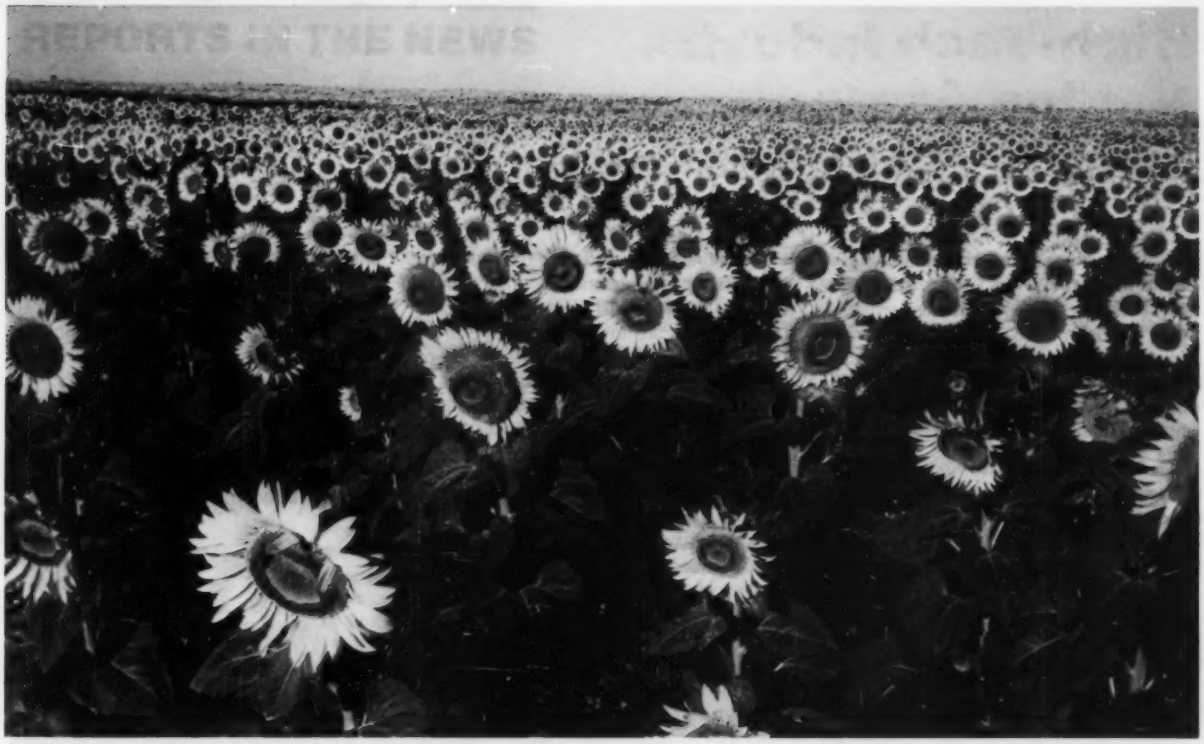
Gross returns to farmers for spring wheat and barley have increased 25 to 30 percent since 1979, due in part to government crop loans and deficiency payments. Gross returns for sunflowers dropped to 25 percent below the 1979 total. As expected returns for barley rise, or government set-aside acreage requirements increase, sunflower acreage falls, says Wendland.

At the same time that sunflowers were facing competition from program crops in the

Sunflower Acreage Has Been Losing Ground to Other Crops in Recent Years



*Total acreage in North Dakota, South Dakota, and Minnesota planted to barley, wheat, and sunflowers.



Competition Tough For Sunflower Oil

The industry cites lack of consumer acceptance as part of the reason sunflowers are not a dominant oilseed crop in the United States. The industry says that health-conscious American consumers are not willing to pay a price premium for products made from sunflower oil, ranked by the USDA Human Nutrition Information Service as being the third lowest of the cooking oils in percentage of saturated fat, and the third highest in unsaturated fats. Unsaturated fats are the kind that won't raise your cholesterol levels.

Sunflower oil contains 11 percent saturated fat, just 2 percentage points more than the formerly lowest-ranked safflower oil. (Rapeseed oil, a relative newcomer to the U.S. edible vegetable oil market, contains 6.8 percent saturated fat.) Corn oil is ranked just above sunflower at 13 percent, olive oil 14 percent, and soybean oil 15 percent saturated fat. (Lard contains 41 percent saturated fat, palm oil 51 percent, and butter 66 percent.)

There is a great deal of difference in price between safflower and sunflower oil, but hardly any between sunflower and the other popular cooking oils. ERS analyst Bruce Wendland points to figures that show that while the wholesale price of safflower oil was 50.8 cents per pound in March 1988, sunflower oil was 21.9 cents per pound, soybean oil was 20.2 cents, corn oil was 21.3 cents, and palm oil, readily found in many lists of processed foods' ingredients, was 19.4 cents per pound.

Apparently, U.S. consumers have not felt that the difference in saturated fats of soybeans and sunflowers was significant to warrant changes in their buying decisions, says Wendland. Major brand-name producers of cooking oils have also avoided making the switch to sunflower oil.

United States, oilseed production grew rapidly in the European Community (EC) because of large increases in subsidies.

Oilseed prices in the EC are supported through subsidies paid to crushers who purchase EC oilseeds. These oilseed prices are currently 2 to 3 times world market prices. But in the February 1988 EC Budget agreement, a mechanism was established to tie subsidies to production. If EC oilseed production exceeds what are called Maximum Guaranteed Quantities (MGQ), oilseed support payments are reduced. Oilseed production in 1988 exceeded the MGQ and subsidies were reduced.

Exports Get Assistance

As a whole, the United States has been losing some of its market share in vegetable oil exports over the past decade to suppliers such as Argentina, Brazil, and Malaysia. The average EC export market share for total oils from 1982/83 to 1986/87 was 24 percent, slightly above the previous 5-year average, while the U.S. share dropped to 8 percent, half what it was in that same period.

The EC maintained its market share through its oilseed price support policy. The United States is countering the EC

subsidies with the Export Enhancement Program. In 1986, the Export Enhancement Program for vegetable oils targeted India, and in 1987, added Algeria, Morocco, Tunisia, and Turkey. These are countries where the EC has a substantial market presence in vegetable oils, and where rapeseed and sunflowerseed oil imports are significant.

U.S. exports are also supported by GSM export credit guarantees to purchasing countries, and by the Food for Peace program.

In addition, U.S. sunflower oil exporters have an export assistance program of their own, the Sunflower Oil Assistance Program (SOAP), enacted in 1987. Under SOAP, USDA will purchase up to $10 million of sunflower oil to be awarded as bonuses to exporters. The SOAP program is scheduled to be available through fiscal 1989.

The future of the industry is dependent on how sunflowers compete with other crops and the direction of new farm programs, says Wendland. "In the past, the security of guaranteed target prices, loan rates, and diversion payments for wheat and feed grains made these crops more attractive than sunflowers. Strengthening oilseed markets would cause sunflower prices to rise and thus encourage wheat and barley producers to grow more sunflowers." □

[Based on information provided by economists Bruce Wendland and Robert Cummings of the Commodity Economics Division, Economic Research Service.]

Rapeseed Oil Boosts Market Share

There is an upstart in the U.S. edible oil market (though it's no stranger to the world market) which may slide into fourth place in world consumption of vegetable oils after sunflower oil. It's rapeseed oil, better known in Canada, the major U.S. supplier, as canola.

ERS analyst Robert Cummings reports that although it's only 2 percent of the edible oil consumed in the United States, it is among the top oils consumed worldwide. It is in fourth place behind soybean, palm, and sunflower oil. And rising supplies of rapeseed oil have made it one of the cheapest vegetable oils sold on the world market.

New hybrid varieties have greatly reduced rapeseed's undesirable erucic acid content (found to cause heart lesions in laboratory animals when ingested in high doses) so that it now has a Food and Drug Administration status of "Generally Regarded As Safe" for human consumption. But the properties of rapeseed oil that really count to the health-conscious consumer are its low saturated fat (6.8 percent), its high monounsaturated fat (55.5 percent), and its good polyunsaturated fat content (33.3 percent). In fact, in 1987, the American Health Foundation of New York named a retail brand of rapeseed oil as its product of the year.

Oil producers like rapeseed because it has a 38-percent oil content. (Sunflowerseed has approximately 40 percent and soybeans have 18 percent.) Rapeseed oil has a very bland flavor, and it is stable in heat and light, making it ideal for processes which cannot tolerate flavors that would carry through to the finished product. And because it contains a small amount of erucic acid, it has a good shelf life and excellent storage at refrigerated temperatures.

Rapeseed is a Northern Hemisphere crop with spring and winter varieties. Over 80 percent of it is grown in Europe, China, India, and Canada. U.S. production is minimal and limited to contract acreage.

Cummings says that the commercial introduction of improved hybrids, and the European Community's heavy support for its main oilseeds—rape, sunflower, and soybean—have increased rapeseed production. World production of rapeseed is forecast at 21.56 million metric tons in 1988/89, 11 percent of all world oilseed production.

Per capita vegetable oil consumption in Canada and the EC is stable, so much of the increased supply of rapeseed oil is exported (total world exports were expected to be up 44 percent in 1986/87 to 1988/89 over 1983/84 to 1985/86).

World prices for rapeseed oil fell as a result of the increased supply, and the United States is forecast to import 200,000 tons in fiscal 1989, up from the yearly average of just 25,000 tons in fiscal 1984 through 1986. That's 16 percent of the U.S. import volume of edible vegetable oils forecast for fiscal 1989, behind coconut, palm, and palm kernel oil.

Some U.S. companies are establishing rapeseed oil product lines, says Cummings. "Future use will depend on the price of rapeseed oil relative to other oils, and the impact of health considerations on consumer demand."

REPORTS IN THE NEWS

Ag Exports Crucial In Many Counties

The ups and downs in U.S. agricultural exports since the 1970's affected the farm sectors of some rural counties more than others. Among the counties most affected were those in which farming is heavily dependent on the five major export crops—corn, wheat, soybeans, cotton, and rice.

Of these 419 export-dependent counties, three-fourths are clustered in the Corn Belt, Delta, and Great Plains.

In about 40 percent of the export counties, farming is one of the primary economic activities, so that downturns—or upturns—in exports have broad implications for employment, income, population, and the general prosperity of farm and nonfarm residents alike.

In a recent report, two ERS analysts examined several economic indicators for export counties and how these indicators changed when agricultural exports weakened from 1981 to 1986. Their findings: Farmland values dropped more sharply in the export regions than in other areas with more diversified farming. At the same time, growth in per capita income fell below the average rate for all nonmetro counties, and employment growth slowed dramatically.

For farms in the export counties, the export slump also brought greater dependence on government farm program payments and higher than average rates of severe financial stress.

The recovery in U.S. agricultural exports in 1987 and 1988 is a promising sign, say the analysts. The export expansion of the 1970's brought gains in population, employment, and income to the export counties. If the current expansion continues, these counties can probably look forward to higher farm returns and renewed economic growth in coming years.

The U.S. Farm Sector: How Agricultural Exports Are Shaping Rural Economies in the 1980's *by Judith Sommer and Fred Hines. (Published September 1988; 23 pages of text, maps, and data tables; GPO Stock No. 001-019-00591-2; $1.50.)*

Food Prices Rise Less Than Incomes

Food prices rose 4.1 percent in 1987, up from 3.2 percent in 1986. Although 1987's increase was the largest since 1982, it was well below the rates of 1978 to 1981, when food prices were climbing 8-11 percent a year.

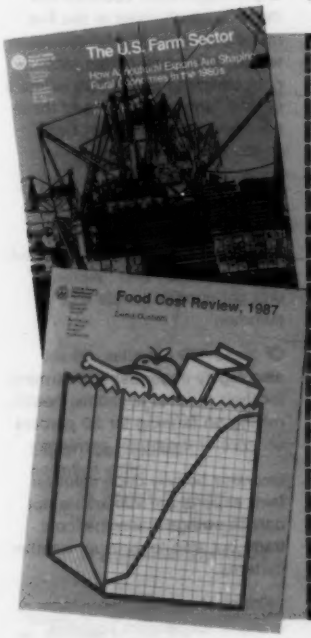
For the first time since 1978, foodstores led eating places in the price movements. Average prices for food purchased from foodstores were up 4.3 percent in 1987, outpacing the 4.0-percent increase for food from restaurants and other eating places.

Last year was also the second in a row that food prices increased faster than the general inflation rate for all goods and services. Since 1978, however, food prices have climbed 57.5 percent—far short of the 74-percent gain posted by the inflation rate.

Consumers spent $377 billion for foods produced on U.S. farms last year, compared with $360 billion in 1986. Farmers received $94 billion of 1987's expenditures, or 25 percent (the same percentage as in 1986). The remaining $283 billion went to the food industry for handling, processing, and retailing food.

Although consumers are spending more dollars for food, personal income is climbing at an even faster rate. As a result, food is taking a smaller bite out of income. In 1987, 12.1 percent of U.S. personal disposable income was spent on food, down from 13.6 percent in 1977.

Food Cost Review 1987 *by Denis Dunham. (Published September 1988; 53 pages of text, charts, and data tables; GPO Stock No. 001-019-00599-8; $2.75.)*



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AGRICULTURAL ROUNDUP

EC Moving Closer To Economic Unity

The European Community is drawing closer to its decades-long dream of becoming a single economic entity, prompting some concern that exporters may find it even more difficult to penetrate EC markets after December 31, 1992.

Beginning in 1993, the EC goal is to officially lift the border barriers between EC nations, treating trade among its members with no more restriction and regulation than that governing commerce within the individual countries. That would make the EC a truly unified market without physical, financial, or technical obstacles to trade in goods and services among its 12 member nations and some 325 million people.

However, some serious problems must be resolved if the goal is to be realized.

"The most critical may be the need for a common currency that would mirror the reality of a community without financial or commercial barriers," says ERS economist David Kelch. "The introduction and acceptance of a common currency is unlikely in the near future because of the implications for domestic policy in the member states. Important financial concerns such as taxes and interest rates could no longer be the domain of domestic politicians, but would be considered an EC matter."

Agriculture presents an even more unwieldy problem in the drive toward increased EC unity.

"The last 20 years of the CAP have proven how difficult it is to arrive at common pricing in the EC," says Kelch, citing the EC's enormously complicated agri-monetary system that has been used to avoid common pricing and retain some domestic control of farm policy.

"It is unlikely that EC farmers and politicians will agree on how to disestablish the current system without resurrecting it in some other guise," says Kelch.

Nevertheless, a 30-year effort to carve a genuine common market from countries with different languages and cultures has been somewhat successful, and after 1992 the EC will probably form an even more formidable trading bloc. That's because keener competition at home—among EC business and farming interests—will likely sharpen EC competitiveness abroad.

Already accustomed to the EC's clout in world export markets, though, U.S. exporters may be more concerned about the EC market itself—and how accessible it will be under a more unified system.

Certainly, EC protection of its internal markets from imports has sometimes seemed to be the main feature of the Community. In fact, EC assistance to its farm sector has transformed the Community into a large exporter from its one-time status as a large net importer.

In 1986, for example, "EC producers of some farm commodities received government support equivalent to nearly half their total revenue," says economist Mary Anne Normile of USDA's Economic Research Service, who recently looked at EC "protection" of its agriculture and possible reforms. "Among the major industrialized countries, the EC was second only to Japan in the level of support provided to agricultural producers."

Import quotas, tariffs, variable levies, and other restrictions apply to a wide variety of farm products, including fresh fruits and vegetables, grains, livestock products, and dairy products.

With global GATT trade talks under way this year, "negotiations to reduce government support and protection of agriculture remain an item of major interest," says Normile.

Up to this point, at least, the EC has not backed the U.S. call for an end to such intervention by the year 2000 and has offered its own set of solutions to the problems of restrictive world trade.

"In contrast to the United States," says Normile, "the EC focuses on the imbalance between supply and demand and proposes short-term measures to stabilize the export market."

As a result, she says, "the EC may agree to reduce surplus production, but it is unlikely to take steps to bring about large reductions in the level of support for its farmers."

Obviously, progress in trimming agricultural trade barriers will rest on reforms in farm policies of the EC and other major trading nations.

But she says the EC's position is that a better world supply-demand balance is a prerequisite to reducing import barriers, and that reduction of subsidies is a long-term goal. "To reduce surpluses of grain, sugar, and milk, the EC proposes setting global minimum export prices for dairy products and cereals, and restricting sugar exports to the average of the last 5 years."

EC officials agree with the United States that technical regulations should be "harmonized" with those of other exporting nations to eliminate trade distortions or barriers that exist—but, on market access, they have proposed bringing their own import barriers into better balance by reducing some and raising others.

"This is generally interpreted to mean that the EC would trade off reduction of import barriers on grains for increased barriers on oilseeds and nongrain feeds," says Normile.

In effect, she says, the EC "believes the U.S. proposal to phase out all agricultural subsidies in 10 years is unrealistic. The Community's position is that the imbalance between supply and demand is the cause for the crisis in agriculture, while the United States believes the imbalance is caused by too much government intervention in the market."

The EC has shown some willingness to address the problem of surplus production, says Normile, "but through supply control and not by reducing incentives to production. More in-depth reforms are still in question."

Export Counties Hit Hard by Drought

Farmers in the nation's 419 "export-dependent" rural counties were expected to show a significant financial recovery this year because of sharply higher agricultural exports.

Export-dependent counties are those in which sales of the five major export-oriented crops (corn, wheat, soybeans, cotton, and rice) comprise 50 percent or more of total farm sales. Most of these counties are in the Corn Belt, Delta, and Great Plains.

Because of the drought, that optimistic outlook has faded, particularly in the 179 export-dependent counties that were suffering "severe" and "extreme" drought conditions late this summer.

Of these 179 counties, 85 are also highly dependent on farming for their general economic health, relying on farming for 20 percent or more of their total earnings.

Counties heavily dependent on farm exports are vulnerable not only to swings in international trade but also to unusual weather patterns.

"Financial conditions for farmers in export-dependent counties

have improved as exports have grown since 1986," says economist Judith Sommer of USDA's Economic Research Service. "However, the drought this year impedes the financial recovery of many producers in farm export counties."

Corn and cotton led the way in last year's higher farm export sales, accounting for some 59 percent of the growth in such sales and demonstrating the importance of these crops to total U.S. farm exports. Overall, the 179 export-dependent counties most affected by the drought account for about one-fourth of the nation's corn sales.

Much of the drought damage has been concentrated in the Corn Belt, says Sommer, but the Lake States and the Northern Plains have also been hit.

Although reduced yields in the United States will bring higher domestic and world prices, the net effect of that will vary by county and region, says Sommer.

"Farmers in export-dependent areas that are having a good crop year, especially those located in the winter wheat growing areas of the southern and central Great Plains, will have higher farm incomes because of the higher prices," she says.

"Some farmers can draw down their inventories to offset substantial yield reductions and maintain adequate cash flow this year. But many farms in the severe and extreme drought export-dependent areas will have crop shortfalls that mean lower sales and lower cash incomes for farmers and reduced income for nonfarm businesses in these counties."

Together, she says, "declines in agricultural exports, problems in the farm sector, and now the drought have dealt some rural areas repeated blows."

However, "it's still too early to say statistically how hard those counties will be hit," Sommer adds, noting that most of them are eligible for assistance under federal and state drought programs.

Beef Consumption Factor Adjusted

Per capita beef consumption, according to USDA estimates, declined more than 5 pounds between 1985 and 1987. It is expected to drop again this year. Some of the decline, however, is due to an adjustment in how beef consumption is calculated.

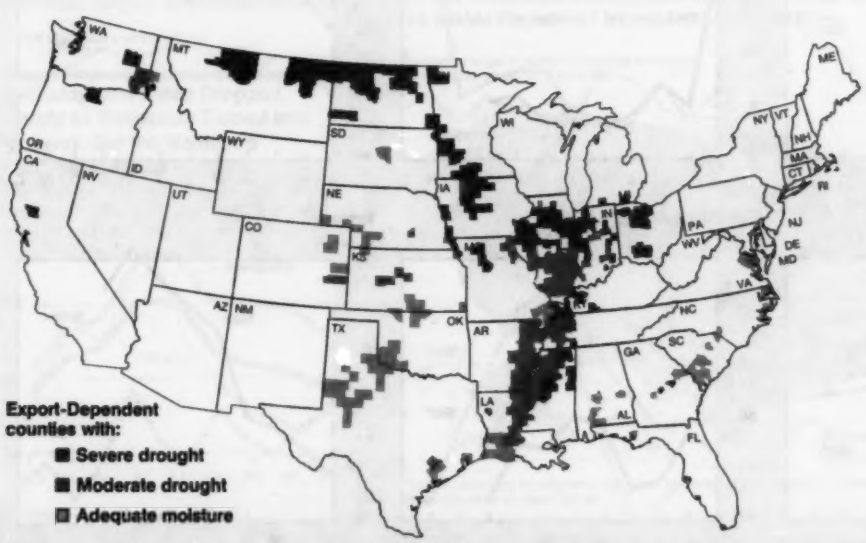
USDA's Economic Research Service modified its carcass-to-retail conversion factor, which is used to estimate consumption, to give a better indication of how much beef is marketed. ERS economists Larry Duewer and Ken Nelson say the adjustments for 1986 and 1987 more accurately reflect the fact that retail beef now has a higher percentage of meat and less fat and bone than a decade ago. The old factor included the weight of more fat and bone, they say.

The economists explain that the leaner beef is the result of industry changes in how products are marketed. For instance, more boneless cuts are sold and more cuts are closely trimmed. The Texas A & M National Beef Market Basket survey taken in late 1987 and early 1988 indicates that some beef cuts are trimmed to one-eighth of an inch of fat or less. Retail outlets began trimming beef cuts more closely after a 1985 survey found that consumers wanted leaner beef with less external fat.

Prior to 1986, the factor used to convert consumption to a retail weight basis was 0.74, or 74 percent. In other words, 100 pounds of carcass equaled 74 pounds of retail cuts. The conversion was first adjusted downward to 0.73 in 1986. The new figure, which applies to 1987 consumption data and future years if the factor remains unchanged, was set at 0.71. This means the same 100 pounds of carcass now is assumed to yield 71 pounds of retail meat.

In modifying the conversion rate, Nelson and Duewer used the Texas A & M survey and other sources. While the adjustment from 0.73 to 0.71 resulted in a 2.1 pound per capita drop for 1987, it may not have reflected any actual difference in the amount of beef we eat. "This is because the fat and bone now removed at retail were probably left in the cooking pan or on the plate as table scraps," says Nelson. The new factor also means that consumers received more lean beef per pound of product purchased in 1987 than they did in previous years, adds Duewer.

Many Export-Dependent Counties Have Been Hit Hard by the Drought*

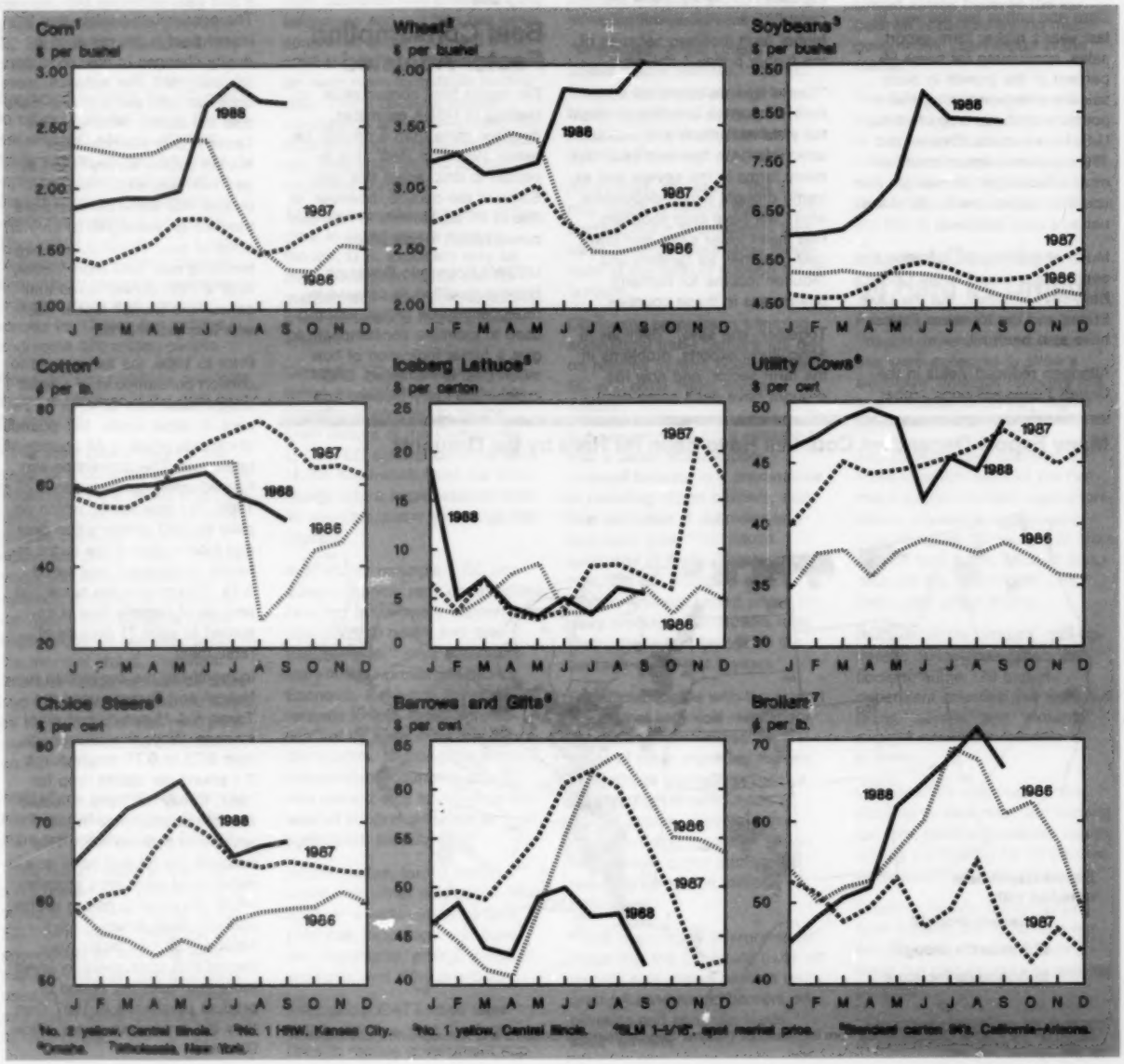


*Based on the Palmer Drought Index from the National Weather Service, National Oceanic and Atmospheric Administration, for the week of July 3-9.

FARMLINE TRENDS

Monthly Price Monitor

USDA's September 1988 index of farm prices increased almost 1% from August and was 12% above its year-earlier level. Corn was off 2¢ to $2.69 per bushel, while wheat jumped 25¢ to $4.03, its highest price since May 1983. Soybeans, at $8.31 per bushel, were down 4¢ from August and 61¢ from their June high. Cotton continued to weaken, falling to 51.3¢ per lb., its lowest since November 1986. Among meat animals, utility cows climbed to $48.41, up $4 from August. Choice steers gained 60¢ per cwt to $67.68. Barrows and gilts lost more than $5 to $42.00, the lowest since last November. After rising for 8 straight months, broiler prices dropped 5¢ per lb. to 66.5¢. All prices shown are monthly averages.



Nonmetro Areas Lag in Job Growth

Data were provided by economist Alex Majchrowicz of the Agriculture and Rural Economy Division, Economic Research Service

Nonmetro Areas Had Less Success Than Metro Areas in Creating Enough New Jobs To Match Labor Force Growth During 1979-86

Population growth, 1960-86		Growth in civilian labor force, 1979-86*	
Metro	+7.1%	Metro	+13.7%
Nonmetro	+4.0%	Nonmetro	+7.3%
Growth in employment, 1979-86**		**Unemployment rates, 1979 and 1987:**	
		1979	1987
Metro	+11.5%	Metro	5.7% 5.7%
Nonmetro	+2.1%	Nonmetro	6.1% 7.9%

*Includes people who are unemployed and actively looking for work. Growth in size of labor force exceeded population growth for several reasons, including more women entering the work force and more younger people entering than people retiring.
**Wage and salary employment; excludes self-employed proprietors.

In Terms of Employment, Nonmetro Areas Suffered More Than Metro Areas During the 1979-82 U.S. Economic Recession. . .

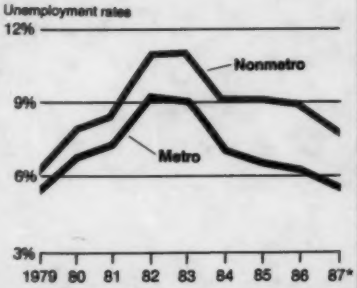
	Change in employment, 1979-82*
Metro	±0%
Nonmetro	-3.1%

. . .And Nonmetro Areas Recorded Smaller Gains During the Subsequent Recovery

	Change in employment, 1982-86*
Metro	+11.5%
Nonmetro	+5.4%

*Wage and salary employment.

Unemployment Rates Dropped Sharply as Recession Turned into Recovery, But the Nonmetro Disadvantage Had Widened



*Preliminary.

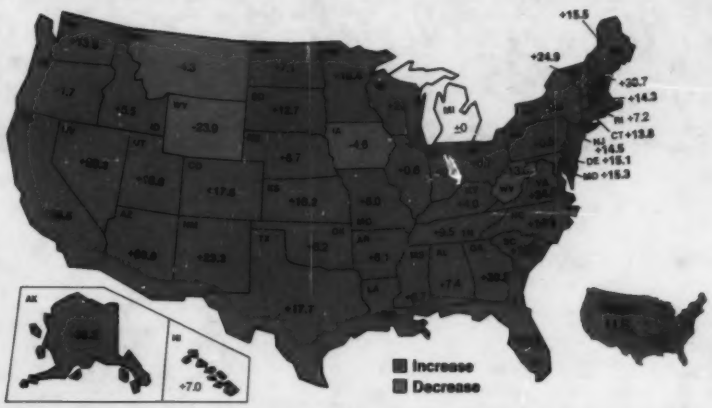
Metro-Nonmetro Comparisons of Employment Growth, 1979-86

Metro gains were strongest in New England, the Southeast, and Southwest. Wyoming and West Virginia had the largest declines, and gains were marginal (or zero) in the heavy manufacturing states of Michigan, Illinois, Indiana, Ohio, and Pennsylvania.

Nonmetro employment declines were recorded in most of the northern-tier states, except Wisconsin, Michigan, and New England. Areas experiencing declines included the Northwest, the Northern Plains, and the Corn Belt, extending east to Pennsylvania.

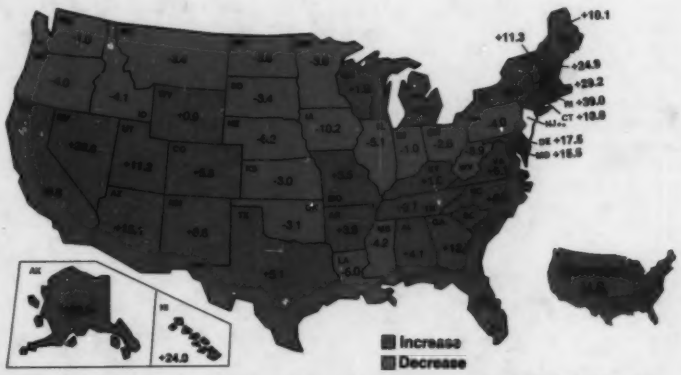
Metro Employment Dropped in Four States and Rose in 45 States, with 25 States Showing Increases of 10% or More

Percent change in number of people employed in metro areas, 1979 to 1986:*



. . .But Nonmetro Employment Fell in 18 States, and Only 15 States Registered Increases of 10% or More

Percent change in number of people employed in nonmetro areas, 1979 to 1986:*



*Wage and salary employment, excluding self-employed proprietors. **The entire state of New Jersey falls within areas classified as metropolitan.

Sources: Wage and salary employment statistics were computed from unpublished data provided by the U.S. Department of Commerce, Bureau of Economic Analysis. Labor force estimates are based on unpublished county data from the Bureau of Labor Statistics. Population data are from the U.S. Bureau of the Census. In comparing metro and nonmetro data, metro refers to metropolitan statistical areas defined as of 1983 by the U.S. Office of Management and Budget.

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